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Chapter 12

Separations at the Firm Level

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1. Introduction

In labor economics one may distinguish between theories that focus only on the stocks of employment and unemployment and theories that view unemployment as the result of continuous labor turnover. In the dynamic flow theories of unemployment, worker turnover plays a key role in explaining the equilibrium level of unemployment (see, e.g., the models with search frictions like those of Pissarides 1990 and Mortensen and Pissarides 1994). The transition rates are in general determined by information arrival rates, and by shocks that influence the profitability of the job. Whereas most empirical labor market flow studies in the beginning of the nineties focus on aggregate time series (e.g., Blanchard and Diamond 1990), more recent studies benefit from the increased availability of combined worker-firm data

sets. The pioneering work of Dunne, Roberts, and Samuelson (1989) and Davis, Haltiwanger, and Schuh (1992, 1996a) shows that aggregate employment outcomes are only the tip of the iceberg and that data on individual firms can teach us a lot more about the underlying dynamics of the aggregate employment rates. The information on individual workers, however, was limited in those studies. For instance, it is known which firms shrank (expanded), but not which workers were laid off or left (were hired).

This paper is an explorative analysis of separation rates at the firm level. The fact that we observe all separations improves on earlier studies that were based on net employment changes, that is, the difference between the inflow and outflow of workers. Only on the counterfactual assumption that no workers are hired when firm-level employment decreases can we take the rate of net employment change as the separation rate. This not only introduces measurement error, but also gives a highly selective sample, because in that case we have separation rates only for shrinking firms. A second improvement is that we are able to make a distinction between transitions to unemployment, that is, lay-offs, and direct job-to-job transitions, mostly quits. In some of the search friction models (Pissarides 1990, Mortensen and Pissarides 1994), direct job-to-job transitions do not occur. So an indication of the importance of this flow and its sensitivity to the business cycle is of independent interest. A third improvement is that we can decompose the separation by a number of worker and job characteristics. In this paper we are particularly interested in differences in the lay-off rates of lower and higher educated workers over the business cycle. It is well known that the unemployment rate of lower educated workers is more sensitive to the level of economic activity than the unemployment rate of higher educated workers (see, among others, Van Ours and Ridder 1995). One explanation of this phenomenon is that during a downturn firms lay off lower educated workers before higher educated ones. The reason may be that the firing costs (usually related to the wage) and rehiring costs (inclusive of training costs) when the economic environment improves are higher for workers with more education (see, e.g., Pfann and Palm 1993). As a consequence, employers hang on to their higher educated workers during downturns.

We explore this explanation using individual firm data on lay-offs. We find that lay-off rates indeed decrease with education. However, the lay-off rate for higher educated workers in bad years is too large to explain the relatively strong cyclicality of the unemployment rate for lower educated workers. This implies that firm employment policies do not explain the stronger sensitivity of the unemployment rate for lower educated workers to the business cycle. We must look somewhere else for an explanation—for example, re-employment rates of lower and higher educated workers.

The passive attitude of firms when confronted with a change in the level of economic activity is confirmed by the increase in the direct job-to-job flow rate during an upturn. This increase is even larger for higher than for lower educated workers. If the firing and rehiring costs are indeed larger for higher educated workers, then

it is surprising that firms are not interested in or capable of reducing the large job-to-job flow rate of higher educated workers during boom years. It is interesting to note that the total separation rate does not change much with the level of economic activity, but its composition does. Moreover, the total separation rate decreases with education.

To study those issues, we use a firm-worker data set that covers the entire Dutch economy.[1] The data were originally collected to obtain information on the development of wage income for different categories of workers and are based on administrative records of individual firms. Important advantages of this data set are that there are very few missing observations and that it contains detailed information on the inflow and outflow of workers.

The main disadvantages are that the two-step stratified sampling procedure is rather complex and that we have no information on some firm outcomes such as profits, product value, investments, and the stock of capital. Also, the data cover only four years, 1993–96. Fortunately, 1993 was a year with a lower level of economic activity than 1996, so that we are able to answer some of the questions raised above.

This paper is organized as follows. In "Data" we describe the construction of the data set and give some descriptive statistics. In "Who Separates and Why?" we study the total separation rate and the lay-off and direct job-to-job transition rates. The final section contains some conclusions.

2. Data

For this paper we have used the AVO (Arbeidsvoorwaarden Onderzoek) data set of the Department of Social Affairs and Employment, which covers the period 1992–96. The data were collected by means of a two-step sampling procedure. In the first step, a number of firms were drawn from the Department of Social Affairs internal firm register, which is roughly similar to the firm register of the CBS (Statistics Netherlands), using a stratified (by industry and firm size) design.[2] The number of strata changed between surveys (80 in 1993, 280 in 1994, 280 in 1995, 312 in 1996).

At the second stage, a sample of workers was drawn in October of the year of the survey. In the sequel the year in which the sample is drawn is denoted by t. For the workers in the sample, information was collected from the wage administration of the firm, both for years t and t-1 (if they were employed at the firm in both

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1 Hassink (1999) has used the same data set to study the effects of age and tenure on lay-offs (see chapter 1–13 of this volume).

2 Firms from the service sector and semi-public sectors are included in all samples. The 1993 sample contained, however, no information on public sector workers. We therefore excluded this sector from the other samples as well.

years; the information for year t-1 is also for October). In addition, the number of workers who had left the firm between October of year t-1 and October of year t was registered. To obtain information on workers who had left the firm, a random sample was drawn from these employees. In addition to the information that was collected for all sampled employees, the new labor market position was registered for the employees who had left the firm. The sample size was increased if certain conditions were not met. [3]

The two-stage sampling design is rather complex. At the firm level it results in random samples from the employees present in October of year t and the workers hired[4] in the previous year.[5] If needed, sampling weights that are obtained by multiplying the inverse of the probability that the firm of the employee is in the sample and the inverse of the probability that the employee is selected from all the employees of this firm can be used to obtain sample statistics that refer to either the population of employees present in years t and t-1, the inflow, or the outflow. For firm variables, the sampling weight is equal to the first factor.

In the AVO the employee and job characteristics that are registered are gross wages, overtime payments, hours worked, profit shares, education, age, tenure, gender, occupation, type of contract, and job complexity level. Some wage-related variables and *hours worked* are available for October of year t and year t-1. Job characteristics, such as the complexity of the job, were registered only in year t-1 for separating workers and in t for the other workers. This precludes the study of promotion within the firm. The data also contain information on various separation routes like lay-offs, transitions into other jobs, disability inflow, and early and normal retirement. Remember that this information comes from administrative records of firms, and that it is therefore limited by the scope of the firm's administration. For example, a worker who is given notice of lay-off in the near future may immediately quit and take another job to avoid unemployment. In this case, the worker is most likely to be recorded as a job-to-job mover, without any reference to the lay-off. However, a worker who stays with the firm until the date of lay-off is most likely to be recorded as a laid-off worker. The data do not provide information on the labor market state just after the lay-off. For a detailed description of the job complexity and education levels, see Gautier et al. (1998) and Venema (1997).

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[3] At least 10 employees had to be covered by a collective bargaining agreement and 10 not; the minimal number of employees present in October of year t and t-1, the number of workers hired in this period, and the number of workers who separated in this period had to be at least 8. If one of these conditions was not satisfied the sample size was increased.

[4] However, we do not know the number or the characteristics of employees who were hired after October of year t-1 but left the firm before October of year t.

[5] To be precise: because of the additional requirements, the design results in random samples from subgroups of workers distinguished by presence in October of year t or t-1, or both, and covered by collective bargaining (or not).

The main advantage of the AVO data is that we observe both worker and firm characteristics. But the AVO also has a number of limitations. The complex sample design results in a large variation in the sampling probabilities and, as a consequence, in the corresponding sampling weights. This may magnify (small) biases in the firm register from which the sample was drawn. Indeed, a comparison of estimated population averages for some worker and firm variables obtained using these weights and the estimated population averages for the same variables obtained from the Dutch labor force survey (EBB) reveals substantial differences (Gautier et al. 1998). Almost all differences are eliminated if we remove employees with sampling weights that are larger than 500 (about 5 percent of the sample in each year). These workers are employed in small firms in industries with relatively few firms.[6]

Table 1. AVO Data: Weighted Means 1993–96

Variable	93	94	95	96
Workers employed at shrinking firm (%)	30.6	30.4	24.6	26.5
Workers employed at growing firm (%)	33.2	39.0	44.8	41.6
Female (%)	37.1	35.6	37.7	36.0
Inflow (% of total employment)	11.8	10.8	13.4	13.8
Separation (% of total employment)	11.0	8.7	9.6	10.0
(Semi) collective wage agreement (%)	74.1	78.7	77.0	76.4
Age (years)	35.8	35.9	36.0	36.0
Completed education (years)	11.2	11.2	11.3	11.5
Real gross hourly wage (Dutch guilders)	25.9	24.1	26.7	27.2
Tenure (years)	7.5	8.0	7.5	7.8
Firm size (1–19 employees)	87.8	79.7	80.8	81.0
Firm size (20–49 employees)	7.1	12.5	11.4	11.1
Firm size (50–99 employees)	2.2	4.3	4.4	3.3
Firm size (100–199 employees)	1.1	1.9	1.7	1.6
Firm size (200–499 employees)	0.8	1.1	1.0	1.1
Firm size (> 500 employees)	0.3	0.4	0.5	0.7
# workers	24,053	31,250	26,059	36,380
# firms	1,682	1,563	1,375	1,548

Note: Individual records are weighted by both individual and firm weights; firm records are weighted by firm weights only.

Source: Labor Inspection, AVO 1997.

6 An alternative would be to include a full set of industry and firm size dummies in the regression equations. Because of the small number of firms (and workers) in the omitted strata, this gives the same result as omitting the observations in these strata.

Table 1 gives estimated population averages for some variables. Most averages do not change much over the years. Even after the correction for extreme sample weights, the firm size distribution is still off in 1993. This is a reason to include firm size in all regression equations, on the assumption that the selection is on this variable.

3. Who Separates and Why?

Descriptive Evidence

As a first pass, we consider the yearly separation rates by level of education for the years 1993–96 (see table 2).[7] In 1993 the level of economic activity was lower than in 1996. This is confirmed by the lower lay-off rate and the higher job-to-job transition rate in 1996. The change in the total separation rate over these years is smaller than that of its components, the lay-off rate and the direct job-to-job transition rate. In all years the lay-off rate decreases with the level of education. This is consistent with higher firing and rehiring costs for workers with a higher level of education (Pfann and Palm 1993). There is abundant evidence that the sensitivity of the unemployment rate to changes in the level of economic activity decreases with the level of education (Van Ours and Ridder 1995). The concentration of unemployment among lower educated workers is socially undesirable. A number of explanations have been proposed for this concentration. An explanation that is popular in Europe, but less so in the US, is that during downturns workers with more schooling crowd out workers with less schooling. Employers who receive many applications for their job vacancies order applicants on the basis of easily measurable characteristics such as education. Van Ours and Ridder (1995) and Gautier et al. (1998) review the evidence. A second explanation is that during downturns employers hang on to their higher educated workers. If they have to reduce their work force, they lay off lower educated workers. The reason for this behavior may be that the firing costs for higher educated workers are higher, and that employers expect to pay higher rehiring and training costs for these workers when the economy improves.

To explore whether the lay-off rates in table 2 can explain the higher volatility of the unemployment rate of lower educated workers, we consider the well-known stock-flow identity for unemployment,

$$U_k(t) = I_k(t) \cdot D_k(t) \tag{1}$$

in which $Uk(t)$ denotes the number of unemployed workers at time t with education level k, $I_k(t)$ denotes the inflow at t of such workers, and $D_k(t)$ denotes the mean

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[7] We focus on lay-offs and job to job movements. For a discussion of worker displacement in the Netherlands, see Abbring et al. (1998).

unemployment duration at t among such workers. Equation (1) is an identity if the inflow into and outflow out of unemployment are constant an equal up to time t. More generally, it is a good first-order approximation in a non-stationary environment. It is useful to go into this in some more detail. Suppose for the moment that the inflow into unemployment consists of lay-offs which occur at the rate $\delta_k(t)$, and that the outflow out of unemployment occurs at the rate $\lambda_k(t)$. It is not difficult to see that then, for any given level of education k,

$$U_k(\mathrm{t}) = \int_0^{\infty} M_k(t-\tau) - U_k(t-\tau)\delta_k(t-\tau)\exp\left(-\int_{(t-\tau)}^{t} \lambda_k(v)dv\right)d\tau$$

where $M_k(t)$ denotes the size of the labor force at t with level of education k. If $M_k(t)$, $\delta_k(t)$ and $\lambda_k(t)$ are constant over time, then a solution to this equation is given by

$$U_k(t) = U_k = [\delta_k(M_k - U_k)]\frac{1}{\lambda_k}$$

which replicates equation (1). Moreover, this outcome is often a good approximation of the true outcome if the rate at which $M_k(t)$, $\delta_k(t)$ and $\lambda_k(t)$ vary over time is much smaller than the value of $\lambda_k(t)$ itself, for in that case most currently unemployed workers have been in a more or less stationary environment. Now recall that we are concerned with business cycle fluctuations of the inflow into and the outflow out of unemployment, and that we examine lay-offs of previously employed workers. The mean unemployment duration among the latter group is substantially lower than the mean among the population of the unemployed, and is generally much less than a year. This is of course much smaller than the duration of a full business cycle, so that the approximation (1) seems to be justified.

Let us return to the original formulation of equation (1). If we divide this by the number of employed workers at t with level of education k, we obtain

$$\frac{u_k(t)}{1-u_k(t)} = p_k(t)D_k(t) \tag{2}$$

where, for given t and k, $u_k(t)$ denotes the unemployment rate and $p_k(t)$ denotes the ratio of the number of individuals who flow into unemployment and the number of employed workers (in terms of the above notation, $u_k(t)=U_k(t)/M_k(t)$ and $p_k(t)=I_k(t)/(M_k(t)-U_k(t))$). If we assume for the moment that the inflow into unemployment consists exclusively of lay-offs, we may set $p_k(t)$ equal to the corresponding lay-off rate (i.e., to $\delta_k(t)$).

Suppose we calculate the ratio of the left-hand side of equation (2) for lower (numerator) and higher (denominator) educated workers. This can of course be done for a "good" year (1996) and for a "bad" year (1993). The ratio for 1993 is larger than for 1996, which should be expected given the higher level and the

higher degree of cyclicality of unemployment among lower educated workers.[8] Now consider the corresponding ratios of the right-hand side of equation (2). In fact, we can only quantify the ratios of the lay-off rates (for different years). To separate the effect of the lay-off rate we assume that the average duration of unemployment is constant over the cycle. It turns out that the ratio of the lay-off rates is 1.1 in 1993 and 2.4 in 1996.[9] Consequently, the latter ratio moves in a direction that is opposite to the direction of the movement of the ratio of the left-hand side of (2). In other words, the difference in unemployment cyclicality between higher and lower educated workers cannot be explained by differences in lay-off cyclicality. The number of lay-offs of higher educated workers in bad times is simply too large. Interestingly, this is in accordance with the empirical evidence based on micro worker data. Imbens and Lynch (1992), Baker (1992), and Van den Berg and van der Klaauw (1998) show that the distribution of the level of education among the inflow into unemployment does not change markedly over the business cycle.

We conclude from the above that the concentration of unemployment among lower educated workers during downturns is not due to the personnel policy of employers. According to equation (2), this means that the difference in unemployment cyclicality between higher and lower educated workers must be explained by differences in cyclicality in their mean unemployment durations.

A weak point in this argument is that part of the inflow into unemployment consists of individuals who did not have a job, but were at school or are re-entrants into the labor force. This inflow is procyclical, but its size is too small (relative to employment) to change the argument. In particular, the lay-off rate of higher educated workers in 1993 is just too large for this inflow to make a difference.

The change over the years in the direct job-to-job flow rate gives indirect support to the hypothesis that employers do not treat higher educated workers differently from lower educated workers during the cycle. One would expect that in boom years employers would like to retain higher educated workers. One way to achieve this would be to raise their wages relative to lower educated workers. Table 2 shows that in boom years firms are not able to retain high-skilled workers. Their job-to-job flow rate increases even more than that of low-skilled workers.

Estimation Results

As noted in section 2, some of the trends observed in table 2 may be spurious. The complex two-stage sample design may bias some of the estimates. In particular, the

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8 Combining the employment figures of the AVO and labor force figures (by education) of Statistics Netherlands, we calculated this ratio to be about 10 percent higher in 1993 than in 1996. In Gautier et al. (1998) we give other evidence that 1993 was a relatively bad year in terms of vacancy unemployment ratios and employment opportunities, in particular for the workers with only primary education.

9 If we compare downturns (1993, 1994) with upswings (1994, 1995), the difference in the ratio of lay-off rates for higher and lower educated workers is even larger.

Table 2. Yearly Outflow Rates by Level of Education (in %)

	Education		
	Lower	Intermediate	Higher
Lay-off			
93	8.3	7.2	7.7
94	2.6	1.4	1.2
95	2.1	1.5	2.1
96	2.4	1.4	1.0
To other job			
93	1.5	0.9	0.8
94	4.4	3.9	4.2
95	5.8	5.1	6.0
96	5.8	6.0	6.3
Total separation			
93	12.7	10.2	10.5
94	10.4	7.6	7.7
95	11.3	9.0	10.0
96	11.4	9.7	9.4

Source: Labor Inspection, AVO 1997.

results for 1993 seem to be out of line. To investigate whether the conclusion reached above is affected by these potential biases, we analyze the individual data. In particular, we estimate logit models for the dummy dependent variables being laid off (or not) and making a direct job-to-job transition (or not). The independent variables are a dummy for the years with a low level of economic activity and a dummy for the level of education. In addition, we include a number of variables (industry, firm size dummies) that determine the sampling probability in order to eliminate biases due to the sample design. Finally, we include some additional explanatory variables that are of independent interest (age, tenure, gender, part-time job, type of wage contract, job complexity level, occupation). In table 3 we give a short description of some of the variables we have used in our regressions.

From table 4 we see that the estimates for the year dummies and the levels of education replicate the patterns found in table 2, and we conclude that these patterns are not spurious. Table 5 gives some simulated probabilities for the mean worker. Those were calculated as follows: First, we use our estimates to compute lay-off, job-to-job, total separation, and conditional lay-off probabilities. We evaluate those probabilities at the estimated parameter values and the mean observed characteristics over the period 1993–96. Next, we vary specific characteristics of workers, jobs, and firms and keep the other characteristics constant to get an idea

Table 3. Short Description of Variables Used in the Regressions

Education	We have information on 7 types of schooling.
	Lower (6–10 yrs): primary, lower general, lower vocational
	Intermediate (12–14 yrs): intermediate general, intermediate vocational
	Higher (>15 yrs): higher vocational and university
Job complexity level	Job complexity levels are based on the complexity of the activities and the amount of supervision required.
Wage agreement	We distinguish 3 types of wage contracts. Most workers have a collective wage agreement (CAO), which is determined by sectoral level bargaining. The minister of social affairs has the right to force all firms within a sector to pay the same collectively bargained wage (AVV) and finally there are workers who have a bilateraly bargained wage contract. Those workers are in general employed at higher positions.
Part/full time	Part-time refers to working less than 100% of the regular number of hours.
Cyclical downturn	Periods in which employment shrinks (93, 94).

of the partial effects. We will first briefly discuss the estimates of the coefficients of the other independent variables and then turn to the education estimates.

The lay-off probability is highest for male workers with tenure of two years who have a full-time contract, have a lower education, and have no collective wage agreement. In addition, we find that very young and very old workers face a larger probability of being laid off than the middle-aged workers. Evidence provided by Hassink (1999), who tests Lazear's (1995) hypothesis of efficient lay-off rules, confirms this pattern. Workers employed at large firms face higher lay-off rates and move more often to a new job than workers employed at small firms.[10] In addition, we see that lay-off and total separation rates for commercial jobs are particularly high, while managers face the smallest probability of being laid off.[11] It is also interesting to see that job complexity levels hardly contribute to the explanation of separation rates. All job complexity level dummies are statistically insignificant. Hence, lower educated workers face higher lay-off rates at all job levels.

[10] This should not be interpreted as evidence for the "conventional wisdom" that small firms are the engines of job growth because regression-to-the-mean effects cause large firms to shrink on average and small firms to grow on average; see also Davis et al. (1996b).

[11] Those results do not change when gross hourly wage is included as an explanatory variable in the regressions. In that case, low-wage workers face much higher lay-off rates than high wage workers.

Table 4. Regression Coefficients (standard errors) Logit Model Lay-off and Direct Job-to-Job Transition (N=116378)

	Lay-off	Direct Job-to-Job
Constant	1.45 (2.36)	0.09 (2.10)
Downturn (93,94)	1.02 (0.04)	–0.73 (0.03)
Log (age)	–2.91 (1.30)	–0.24 (1.20)
Log^2 (age)	0.38 (0.19)	–0.12 (0.17)
Log (tenure)	0.53 (0.04)	0.99 (0.04)
Log^2 (tenure)	–0.42 (0.02)	–0.46 (0.01)
Female	–0.23 (0.05)	–0.16 (0.04)
Part time	–0.27 (0.05)	–0.36 (0.04)
Wage contract		
Collective (CAO)	–0.20 (0.05)	–0.02 (0.04)
Extended (AVV)	–0.11 (0.08)	–0.08 (0.07)
Education		
Primary	0.40 (0.16)	–0.23 (0.12)
Lower general	0.26 (0.15)	–0.41 (0.11)
Lower vocational	0.28 (0.15)	–0.47 (0.11)
Intermediate general	0.10 (0.15)	–0.53 (0.11)
Intermediate vocational	0.12 (0.15)	–0.54 (0.10)
Higher vocational	0.08 (0.14)	–0.35 (0.10)
Job complexity		
f1	0.29 (0.72)	0.35 (0.36)
f2	0.78 (0.71)	0.06 (0.35)
f3	0.62 (0.71)	0.01 (0.35)
f4	0.48 (0.71)	0.02 (0.35)
f5	0.82 (0.71)	–0.23 (0.34)
f6	0.93 (0.71)	–0.20 (0.34)
Occupation		
Simple technical	0.26 (0.15)	–0.22 (0.10)
Administrative	0.27 (0.15)	–0.05 (0.11)
Management	–0.29 (0.18)	0.20 (0.12)
Service orientated	0.16 (0.15)	–0.10 (0.11)
Commercial	0.46 (0.16)	0.07 (0.11)
Creative	–0.10 (0.23)	0.01 (0.16)
Firm size		
10–19	–0.08 (0.06)	–0.11 (0.05)
20–49	–0.13 (0.05)	–0.23 (0.05)
50–99	–0.28 (0.06)	–0.34 (0.06)

Table 4. Regression Coefficients (standard errors) Logit Model Lay-off and Direct Job-to-Job Transition (N=116378) (Continued)

	Lay-off	Direct Job-to-Job
100–199	–0.12 (0.07)	–0.37 (0.06)
200–499	–0.04 (0.06)	–0.27 (0.06)
> 500	0.28 (0.06)	0.18 (0.05)
–2 log likelihood	31,334.3	38,767.2

Note: Including industry dummies. Age and tenure are measured in years.
Reference groups: no collective wage agreement, full time, male, university, job complexity level 7, IT, agriculture/mining, firms < 10.
Source: Labor Inspection, AVO 1997.

The current successful performance of the Dutch economy has sometimes been attributed to the fact that wage bargaining takes place at an aggregate level and that therefore many appropriability problems are internalized.[12] Our results show that workers with a collective wage agreement face a smaller probability of being laid off and move less often to a new job. A possible explanation for this fact is that firms and workers with a collective wage contract invest more in firm-specific capital than workers with a bilaterally bargained wage contract and will therefore stay together as long as possible. On the other hand, it can be caused by the fact that workers with a collectively bargained wage are employed in strongly unionized sectors. Burgess (1988) also finds evidence for Britain that unions can impose costs on firms wishing to lay off workers. Turning to the education estimates, we see that workers with a lower education still face higher lay-off probabilities, but the differences with higher educated workers are now small.

We also tested whether two of our findings, that lay-off rates for lower educated workers are not more cyclical than for higher educated workers and that firms do not try (or are not able) to keep their higher educated workers in good times, still hold after we control for other factors.[13] Hence, the earlier conclusion regarding the role of personnel policy in the concentration of unemployment among lower educated workers during downturns is confirmed.

The analysis also confirms the well-known fact that job-to-job-movements are strongly pro-cyclical. In addition, we find that having a university degree, being male, having little (but more than one year) tenure, and being employed at a large firm increases the probability that an employee will move to a new job.

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[12] For a clear discussion of the macroeconomic implications of appropriability problems and specificity, see, e.g., Caballero and Hammour (1996).

[13] In the lay-off estimate, the cross-effect dummy of an economic downturn and years of education is even positive (0.03 (0.02)) but statistically not significant. Job-to-job movements fall relatively strongly for higher educated workers during cyclical downturns. The estimate of a downturn-times-education-dummy is –0.02 (0.01).

Table 5. Simulated Probabilities (in %)

	Lay-off	Direct Job-to-Job
Total Population	3.90	5.92
Downturn (93, 94)	6.33	4.18
Upswing (95–96)	2.38	8.31
Job complexity level		
Simple (f1,f2)	4.08	6.67
Intermediate (f3,f4)	3.70	5.95
Complex (f5–f8)	4.41	4.92
Education		
Lower	4.20	5.96
Intermediate	3.54	5.37
Higher	3.51	5.75
Age (years)		
20	4.86	9.91
40	3.80	5.07
60	3.87	3.21
Tenure (years)		
1	4.25	3.76
2	4.98	5.86
5	3.39	5.52
10	1.60	3.22
Female	3.38	5.39
Male	4.22	6.27
Collective (CAO)	3.71	5.91
Extended (AVV)	4.04	5.57
No collective wage agreement	4.49	6.01
Firm size (1–99)	3.50	5.57
Firm size >(100)	4.22	6.11

Note: All simulations are based on simple logit estimates evaluated over the average characteristics of the labor force over the period 1993–96. When cells are merged (i.e. f1, f2 and primary, lower general, lower vocational), we weight by average cell side. The estimations also included sector and occupation dummies; see table 4.

4. Concluding Remarks

This paper analyzes the factors that determine lay-offs, job-to-job movements, and total separations with a data set that combines information on both individual firms and workers. The advantage of using combined information on firms and workers is that we can study the partial effects of factors that are believed to be important in explaining separations. We find that workers with a lower level of education face higher lay-off probabilities both in good times and in bad times. We did not find evidence that the lay-off rate for lower educated workers is more cyclical than for higher educated workers. Therefore, the concentration of unemployment among lower educated workers during downturns is not due to the lay-off policy of employers. In addition, we found that having a collectively bargained wage contract and/or having been on the job for a long time (which is of course partly endogenous) strongly decreases the lay-off probability and, to a lesser extent, the probability of moving directly to a new job. The effect of the business cycle on the separation rate is small but it does strongly influence the composition of the outflow. During a boom, the job-to-job rate more than doubles while the lay-off rate is almost three times as small as during a downturn.

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